

VZCZCXRO0185
PP RUEHIK RUEHPOD RUEHPW RUEHYG
DE RUEHBUL #2810/01 2950615
ZNR UUUUU ZZH
P 210615Z OCT 08
FM AMEMBASSY KABUL
TO RUEHC/SECSTATE WASHDC PRIORITY 5905
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC 0673
RUCNAFG/AFGHANISTAN COLLECTIVE
RUEHZG/NATO EU COLLECTIVE
RUEKJCS/OSD WASHINGTON DC
RUEKJCS/JOINT STAFF WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC
RUEABND/DEA HQS WASHINGTON DC
RHMFIUU/HQ USCENTCOM MACDILL AFB FL
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC
RUEAIIA/CIA WASHINGTON DC
RHEFDIA/DIA WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUCNDT/USMISSION USUN NEW YORK 4431
RUEHNT/AMEMBASSY TASHKENT 6921
RUEHTA/AMEMBASSY ASTANA 0060

UNCLAS SECTION 01 OF 07 KABUL 002810

DEPT FOR SCA/FO, SCA/RA, SCA/A, and EEB/TPP
DEPT PASS AID/ANE
DEPT PASS USTR FOR DELANEY, DE ANGELIS AND GRYNIEWICZ
DEPT PASS OPIC FOR ZAHNISER
DEPT PASS TDA FOR STEIN AND GREENIP
CENTCOM FOR CG CFC-A
NSC FOR JWOOD AND CSKERRY
TREASURY FOR LMCDONALD, ABAUKOL, BDAHL, AND MNUGENT
OSD FOR MISTRETTA and SHIVERS
COMMERCE FOR DROKER, HAMROCK, AND FONOVICH

SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET DISTRIBUTION.

SIPDIS

E.O. 12958 N/A
TAGS: [ETRD](#) [ECON](#) [EINV](#) [EAID](#) [AF](#) [PK](#)
SUBJECT: 3RD AFGHANISTAN TIFA TALKS POSITIVE

REF: A) KABUL 02709
B) STATE 105426
C) ISLAMABAD 3010

11. (SBU) SUMMARY: On October 8, U.S. and Government of the Islamic Republic of Afghanistan (GIROA) delegations led by USTR Assistant Secretary for South Asia Michael Delaney and Minister of Commerce and Industry (MOCI) Mohammed Amin Farhang met in Kabul for the third round of Trade and Investment Framework Agreement (TIFA) talks. Afghan and USG officials agreed that the GIROA needs to aggressively combat the corrosive effects of corruption as a key step to improve the Afghan investment climate, revenue collection, and public confidence in the government. The delegates discussed ways to increase job creation, strengthen security, and expand access to credit for small and medium enterprises. Delegates agreed on a number of measures the GIROA can take to improve the business climate, including passing commercial and financial legislation; establishing and implementing fair and transparent regulations; and building governmental capacity to enforce standards for goods exported to and from Afghanistan. Embassy Kabul is engaged on a number of fronts, especially via USAID-funded programs, to support Afghan efforts in these and other areas related to private sector development (see para 18).

12. (SBU) Afghans welcomed the announcement that Embassy Kabul will offer business and tourist visa services to Afghans beginning in February 2009. Afghans described the steps they are taking to prepare for Reconstruction Opportunity Zones (ROZs), and outlined a proposal for Afghan Trade Facilitation Zones (TFZs) to increase the value-added in textile and agriculture industries especially. GIROA reiterated its commitment to seek eventual WTO accession but noted some opposition in parliament, the business community and the public at large. The USG agreed to aid the GIROA in a public education campaign. Finally, the USG offered support to Afghanistan's efforts

to negotiate a new Transit Trade Agreement with Pakistan. END
SUMMARY.

Improving the Investment Climate

¶3. (SBU) Afghan officials highlighted the dramatic growth in trade during the 2001-2007 period, with exports growing from \$100 million to \$450 million (of which \$4 million were exports to the U.S.), and imports increasing from \$2.5 billion to \$3 billion. According to the GIROA, however, these official figures constituted only half of actual trade in Afghanistan. Including "unofficial" black market goods, they estimated that Afghan exports totaled \$883 million and imports reached \$6 billion in 2007. EPAA has set ambitious export growth targets in key sectors, hoping for exports of dried fruit to grow from \$100 million in 2008 to \$1 billion in 2015, marble from \$40 million to \$240 million, and carpets to \$370 million during the same period. Minister Farhang opened the meeting by noting that total investment in Afghanistan during 2003 - August 2008 was \$4.5 billion, of which \$196 million was from U.S. investors. In contrast to this optimistic figure, the Afghan Investment Support Agency (AISA) reported a significant decline in total private investment, from \$1.2 billion in 2006 to \$630 million in 2007.

¶4. Afghan and USG officials recognized the need to aggressively combat the corrosive effects of corruption on Afghanistan's investment climate, revenue collection, and public confidence in the government. Representatives from MOCI, AISA and the Export Promotion Agency of Afghanistan (EPAA) identified poor

KABUL 00002810 002 OF 007

infrastructure (particularly electricity), bureaucracy, capricious fees and taxes on businesses, and a largely uneducated and unskilled workforce as impediments to investment. Afghan and U.S. delegates agreed that access to land also remains a major issue affecting foreign investors in Afghanistan. The U.S. delegation noted that lack of transparency and industry-specific information and potential Afghan partnerships are major impediments for U.S. investors. Additionally, both delegations agreed that corruption at police and customs checkpoints impedes business development and commerce. EPAA said it plans to launch a 24-hour hotline in the coming months to assist truckers who are victims of police and customs corruption. EPAA's objective is to ensure that mobile response units are deployed to the scene within 20 minutes of receiving a call from a trucker. In a telling example, USAID posited that eliminating corruption could quadruple Afghanistan's pomegranate exports.

¶5. (SBU) Delegates also discussed the relationship between the unemployment of young men and insecurity, noting that young, unemployed men in rural areas are vulnerable to Taliban recruitment efforts. MOCI wants to tackle this issue by boosting economic development and creating jobs. A USAID representative suggested that the Afghan government first seek to cultivate current Afghan importers as potential investors, particularly those in agribusiness, rather than looking to foreign investors who are unfamiliar with the environment. The Ministry of Labor (MOL) said it wants to institute a nationwide skills development program to address human capital concerns, but has not launched the program owing to lack of funding from the government and international partners. The Afghan delegation noted that a lack of skilled Afghan workers has necessitated the import of labor from Iran and Pakistan. To address his need, MOL has identified 250 trades for which it would like to provide workers with training and equipment, but the proposed program remains unfunded.

Status of Commerce and Investment Legislation

¶6. (SBU) Minister of Commerce Farhang said that since 2003, seven of the country's proposed ten commercial bills had become law, several by Presidential decree. Currently, the Ministry of Justice (MOJ) plans to send the Contracts Law to Parliament by the end of March 2009. MOCI also indicated that it was working on three additional commercial/ financial laws, but did not provide specifics. In

addition to these laws, th GIROA indicated that it had also drafted witout outside assistance anti-hoarding, anti-monopoly, transportation, and Afghan Chamber of ommerce laws. Legal amendments to enable Afgan implementation of Reconstruction Opportunity Zones (ROZ) have been drafted, which the GIROA has sent to Embassy Kabul for information. The USG delegation urged a more vigorous and unified effort to pass these commercial laws and other laws affecting economic activity such as laws on mortgages, secure transaction of moveable property, and negotiated instruments, even if these laws are not under the purview of MOCI. MOCI officials said they have an excellent working relationship with MOJ and that Parliament has asked MOJ to make the commercial laws a priority. MOCI also reported that the Contracts Law has been held up at MOJ for a year because of problems with the English translation. USAID asked MOCI to better coordinate with international partners on the laws. MoCI said that it would welcome additional capacity-building assistance to strengthen its abilities to draft and implement commercial law. (Note: GIROA had previously committed to passing the ten commercial laws by the end of 2007. End Note) While passing all of these laws would be a positive step, enforcement capacity

KABUL 00002810 003 OF 007

remains a concern.

Strengthening the Regulatory Environment

17. (SBU) Afghan and U.S. delegations agreed on the imperative of building Afghan capacity in establishing quality standards. A representative from the Afghan National Standards Authority (ANSA), a small, newly independent regulatory enforcement agency, explained that, although in existence since 2004, ANSA's lack of buget, staff, and equipment -- and the lack of commercial laws and regulations -- impair the agency's effectiveness in enforcing regulations. Both delegations agreed that ANSA must be supported to enhance the competitiveness of Afghan exports, build nationwide quality control, and protect against poor-quality and potentially hazardous imported goods. GIROA asked for USAID support in helping ANSA reach its key objectives, namely the enactment of key regulatory laws; procurement of additional fuel testing labs; and agency expansion to vital provinces and border points. GIROA also requested help in implementing "Normandy Standards" for its exports.

The Afghan delegation also noted that the Cabinet is reviewing whether to create an independent committee to streamline the approximately 250-day process to obtain land titles.

Sector-Specific Trade Barriers and
Investment Challenges

18. (SBU) AGRICULTURE: The delegations agreed that the agriculture sector has great potential for economic growth if challenges to its development can be overcome. Poor infrastructure, including a lack of cold storage facilities and associated power supply, contributes to an estimated 60 percent of Afghan agricultural products never reaching domestic or international markets. The delegations agreed that corruption, lack of infrastructure (transportation, electricity, and irrigation), cultural constraints surrounding the employment of women, and poor access to credit are the main constraints to investment and cross-border trade in this sector. The Ministry of Agriculture, Irrigation and Livestock (MAIL) said it is looking to institute safeguards for food and seeks USG assistance in agribusiness production and access to credit, food packaging, and cold storage. At the close of the discussion, Ministry of Agriculture official Abdul Wadood Ghorbandhi promised to provide an agriculture paper.

19. (SBU) MINING: The Ministry of Mines (MOM) reported that while there has been considerable progress in the mining sector, major challenges to the sector's growth remain, including security arrangements, particularly in precious gemstone mining. Officials reported progress in the areas of energy and security in the main memoranda of agreement between the GIROA and China Metallurgical Group Corporation (MCC) on the Aynak copper project. GIROA

officials revealed that they had been able to secure agreement from Chinese operator MCC to expand capacity of a proposed coal-fired electrical plant from 400 MW to 800 MW output; an 800 MW plant would provide 200 MW for copper plant operations and 600 MW to the electricity grid. The Ministry of Interior (MOI) is hiring 1,500 security guards to demine and secure the project site. MOM noted that demining and general insecurity in precious stone mines are endemic constraints on the sector and that only small-scale mining is possible in the current environment. MOM also relayed that in the next six months it planned to issue tenders for two blocks of

KABUL 00002810 004 OF 007

gas development and two blocks for iron mines, with other tenders to follow.

¶10. (SBU) ENERGY: Delegates stressed the importance of the energy sector to Afghanistan's future and emphasized the need to urgently address the fuel shortage for the nation's generators. The Ministry of Energy and Water (MEW) said that the drain of skilled labor from Afghanistan during the country's tumultuous last 30 years has left a dearth of qualified Afghan technicians and managers and severely hampered the power sector's growth potential and ability to reform. MEW outlined efforts to reform the power sector, including: a) encouraging independent power provider investment in Afghanistan; b) developing a comprehensive electricity law; and c) developing a five-year plan to restructure MEW with a focus on privatizing public utilities, increasing MEW staffing and building capacity within the ministry, and developing domestic long-term energy sources. MEW asked for strong donor participation in the hydroelectric sector, including the building of dams and transmission lines across Afghanistan. MEW also noted planned imports of power from neighboring countries, including through the U.S.-supported CASA 1000 plan to bring surplus electricity from Kyrgyzstan and Tajikistan, and German and Chinese interest in an assessment of solar and wind potential.

Improving Access to Credit and Contact with
U.S. Markets for Afghan Business

¶11. (SBU) ACCESS TO CREDIT: Both sides agreed on the need to bolster efforts at expanding access to credit to enable Afghanistan's entrepreneurs to succeed in opening and running private businesses, whose tax payments should play an increasingly important role in funding the national government. To improve access to credit, USG officials urged GIROA to pass proposed laws on Mortgages and Secured Transactions and urged GIROA to improve financial reporting standards. MOCI officials noted that the financial sector, in general, has been successful. However, small and medium sized enterprises (SMEs) have trouble obtaining loans and, at an interest rate of 18 percent, their cost of borrowing is too high. MAIL requested assistance in establishing a credit program for farmers and other agricultural workers.

¶12. (SBU) BUSINESS TRAVEL TO U.S.: Afghan officials noted strongly that the difficulty of Afghan businessmen to obtain U.S. visas is a major impediment to U.S.-Afghan trade. Afghan officials warmly greeted the announcement that the U.S. Embassy in Kabul will begin accepting applications for U.S. business and tourist visas by Afghans in February 2009. USG officials were careful to underline that the clearance process could still take 8 to 10 weeks for Afghans and that walk-ins would not be accepted. They said an appointment system will be instituted to ensure security. The head of EPAA noted the predicament of security concerns preventing many foreign buyers, including U.S. buyers, from visiting Afghanistan, while difficulties in obtaining U.S. and European visas kept many Afghan business representatives from building and expanding business ties.

¶13. (SBU) AFGHAN-PROPOSED TRADE FACILITATION ZONES: MOCI discussed its proposal to set up Trade Facilitation Zones (TFZ) in nine provinces. The idea is to better link provincial producers to world markets. Under the program, SMEs would have access to government warehouses, cold storage facilities, business centers, processing plants, and telecommunications, banking, freight forwarding,

insurance and other export services in regional centers. GIROA would focus on agribusiness -- both fresh and dried produce and nuts, carpets, handicrafts, marble, semi-precious and precious stones, and leather production. Using the TFZs, GIROA aims to increase Afghanistan's value-added contribution for such traditional exports, rather than shipping them to Pakistan for processing and re-export. Additionally, MOCI believes the TFZs will aid in efforts to overcome unemployment, rampant corruption, stifling bureaucracy, fragmented production, and poor security. TFZs would also develop road, power, and water infrastructure in the provinces. GIROA estimates that the development of nine centers would cost \$30 million each with an initial \$1 million per TFZ for feasibility studies of 6 to 9 months. GIROA seeks USG assistance in funding the program.

 Preparing for ROZs and
 GSP Videoconference Outreach

¶14. (SBU) Afghan and USG delegates recognized the critical role that the duty-free trade benefits for goods produced in Reconstruction Opportunity Zones (ROZs) can play in creating jobs and sustainable development, especially in impoverished areas along the Afghanistan-Pakistan border. GIROA officials described preparations they were making to take advantage of ROZs, including creating three inter-ministerial committees covering legal, economic analysis, and logistical issues, once U.S. legislation is passed. They were unable to forecast the number of jobs the ROZs would create; instead they countered that the GIROA would need USG guidance on ROZ implementation before such predictions could be formulated. The U.S. delegation updated the Afghans on the ROZ legislative status and encouraged the Afghans to be prepared to implement ROZs quickly since we are continuing to engage Congress in hopes that the law passes soon. While continuing to work on the ROZ legislation, USTR also offered to host a videoconference with relevant Afghan officials and private sector representatives to further disseminate information on how Afghan businesses can better take advantage of duty-free entry of exports to the United States under the U.S. Generalized System of Preferences (GSP) program.

 Commitment to WTO Accession;
 Public Education Needed

¶15. (SBU) Afghan officials reaffirmed the GIROA's commitment to pursue eventual WTO accession but said this process would require time and effort to raise public awareness of the benefits of membership. There were concerns -- and in some cases ignorance -- about WTO membership in Parliament, the business community, and the general public. The Finance Ministry has also expressed concerns about lower tariffs, which some officials worried could reduce revenues and cause the GIROA to miss IMF financial targets. The GIROA was reaching out to key constituencies to build national support for its policy and aimed to deliver its Memorandum of Foreign Trade Regime to Geneva by the end of 2008. (Note: At the last TIFA meeting in July 2007, the GIROA had indicated that it would deliver the MFTR to Geneva by September 2007. End Note) USdel stated that WTO membership would increase Afghanistan's world standing and give the nation a voice in global economic affairs. USdel applauded Afghanistan's national dialogue on WTO accession as illustrative of transparency and the development of democracy. USdel agreed to assist the GIROA with a public education campaign

about the benefits of membership and to help fast-track its membership application once it reached the world body. GIROA officials welcomed the offer.

 Jumpstarting A New Afghanistan-Pakistan

Transit Trade Agreement

¶16. (SBU) Delegates agreed that transit trade problems with Pakistan severely hamper Afghanistan's trade with its most promising trade partner, India, and other countries, and that rapid implementation of an updated Transit Trade Agreement was a high priority. The obsolete 1965 agreement still governs Afghanistan-Pakistan transit trade and poorly serves Afghan interests. There was considerable confusion regarding the status of efforts to negotiate a new agreement (Refs B and C). MOCI Director of International Trade Wardak informed the U.S. delegation that Afghanistan has not delivered draft text to Pakistan. A member of the Ministry of Commerce drafting committee clarified that Afghanistan completed the draft in March and was prepared to give it to Pakistan but during a period of heightened Pak-Afghan tensions, an inter-ministerial review halted delivery. He said the draft is now with the Ministry of Foreign Affairs. When asked when Afghanistan would meet with Pakistan to discuss the way forward, the Afghan delegation replied that they were "waiting for an order" and "waiting for Pakistan" despite the agreement by President Karzai and Prime Minister Gilani at the South Asia Association for Regional Cooperation (SAARC) in August to resume suspended dialogues including the Joint Economic Commission (JEC) and Regional Economic Cooperation Conference (RECC). Finally, at a subsequent Embassy reception, when asked about the confusion, Minister Farhang (who was not present at the TIFA meeting during the above exchanges) said that "seven or eight months ago" he had personally provided a copy of the draft agreement to Pakistan's Ambassador in Kabul, noting that Afghanistan's Ministry of Foreign Affairs was aware of this. In addition to the curious exchanges on this topic, GIROA officials requested U.S. assistance in resolving delays and extra charges that Uzbekistan was imposing on Afghan exports of raisins to Russia and CIS markets. The same officials also noted that they have proposed a rail route to China to circumvent delays that Afghan exports experience at the Kazakh-China border.

¶17. (SBU) COMMENT: The third round of TIFA talks struck a positive and collegial tone. USdel welcomed the incremental progress on the slate of trade and investment issues and the improved bilateral understanding. The GIROA clearly understands the importance of passing legislation related to private sector activity, but MOCI's ability to push passage through Parliament remains to be seen. Other impediments to trade and investment, e.g. corruption at customs posts and onerous fees on traders, appear as intractable as ever. At times, the GIROA failed to address the government's own role in creating a difficult investment climate. For instance, MOM failed to mention its role in uneven enforcement of regulations and the imposition of exorbitant fees. On the other hand, GIROA reaffirmation of its stance on WTO accession was positive, and proposed bilateral cooperation on raising public awareness of the benefits represents a worthwhile joint undertaking. The Afghans are preparing to take advantage of ROZs and, with their own TFZ concept, are examining ways to move up the industrial value chain and promote exports.

¶18. (U) COMMENT CONTD. The TIFA meeting served as a timely reminder to Washington agencies of the great and varied needs of Afghanistan

KABUL 00002810 007 OF 007

across the economic spectrum. The U.S. Mission, mainly through USAID, is engaged on a number of key issues to help the Afghans strengthen their climate for trade and investment. Some examples: In the area of land reform, USAID is implementing a pilot program on land tenure that may be expanded next year to work on improving land security for investors. For skills development, USAID launched three Vocational/Trades Training Centers, and will continue to look for ways to strengthen vocational skills through the Capacity Development Program. For commercial law reform, USAID has provided extensive assistance to draft and secure passage of commercial and financial laws; once passed, USAID is gearing up to support their implementation with required training and public outreach. In the area of standards, USAID and other donors are meeting with ANSA to discuss their strategy and to prioritize specific needs. With regard to access to credit, USAID recently launched a credit guarantee program in the agribusiness sector and continues to expand

training of bank loan officers in SME lending. USAID will also continue to provide support on broader trade issues, such as building capacity to prepare for and negotiate regional trade agreements and WTO accession, support for customs modernization and tariff reform, and assistance on ROZ implementation and public education activities related to trade liberalization. Continued Washington support for these and other programs responsive to issues discussed in the TIFA meeting will be vital -- the more resources Washington can secure for these important initiatives, the better.

119. (U) This message was cleared by the Washington delegation.

WOOD

1